

# The Economic Storm: Challenges and Opportunities Changing the Paradigm to Meet Community Needs

## Executive Summary

The Foundation Center, NYRAG and United Way of New York City convened a roundtable session on Nov. 19, 2008, hosted by Citi, to consider the current financial crisis and how it will impact the non-profit sector. New York's situation is complex, with a 10-year high in unemployment, a 16-year low in consumer confidence and shrinking tax revenues that will necessitate cuts in services. "The community counts on us as 'first responders' to be strong," noted Natalie Abatemarco, Citi's Director of North America Community Programs, although the sector is vulnerable to economic turmoil.

**Today's economic storm is our Katrina challenge**, said keynote speaker Geoffrey Canada, president/CEO, Harlem Children's Zone. With Wall Street in trouble, "New York is ground zero." The "new poor," who are losing jobs, homes and 401(k)s, are joining the "old poor" who face life-or-death crises. The sector must respond to both, holding the safety net together for "a couple of real hard years" to protect our human infrastructure from decline. Drawing on our expertise, we must make the case to our elected officials for federal deficit spending in underserved communities. The City can't afford a return to the years of fiscal crisis such as in the 1970's.

**We must maintain the highest quality core services**, said Linda Gibbs, deputy mayor for health and human services, noting that the Mayor is advocating for federal assistance to localities in both infrastructure and social service investments. We can't count on immediate federal assistance, Gibbs said. Her commissioners hope to identify budget cuts to protect core services rather than across-the-board cuts. Cost-of-living adjustments will be maintained, to continue investments in front-line social service workers. Focused on client service outcomes, the City will eliminate waste and sub-level performance, said Gibbs, affirming its strong commitment to the nonprofit sector.

**"Collaboration is essential across the sector,"** said Bradford Smith, president, The Foundation Center. "Facing a global recession, we all share responsibility to articulate a broad social vision." Gordon Campbell, president/CEO, United Way of NYC, cautioned participants not to let the crisis go to waste, quoting Rahm Emanuel, President-elect Obama's chief of staff, who said a crisis is "an opportunity to do important things you would otherwise avoid."

**Engage in scenario planning for best and worst outcomes with your boards**, advised Clara Miller, president/CEO, Nonprofit Finance Fund; protect your own liquidity and cash management. Fight denial, added Stephanie Palmer, executive director, NYC Mission Society; with board members worried about their own job security, the proverbial glass is empty. Boards must rethink assumptions of 90 days ago about donors. Grass-roots organizations, with budgets below \$1 million, will be most vulnerable to closing, Palmer predicted.

**Keep leadership focused on services that matter most.** For example, an annual report may be essential, but not for \$30,000; produce it on line for \$1,500, recommended Palmer who did this at the NYC Mission Society. Find efficiencies in expenditures, especially in fundraising, suggested Carolyn Cavicchio, senior research associate for global corporate citizenship, The Conference Board Center for Corporate Citizenship and Sustainability. Encourage existing organizations to embrace new ideas and innovative practices so that young people with new ideas will see our existing agencies as viable employers, rather than go and simply form new organizations.

**Protect, build and solidify donor relationships**, advised New York Secretary of State Lorraine Cortes-Vasquez. Be bold and courageous with yourself, your board, funders and government officials. Let them know of unintended consequences if funding drops. Corporate giving will be even more focused after the downturn, said Cavicchio. Since many companies don't understand the sector as they once did, educate them and keep making the case, she counseled. Cultivate small donors for reliable revenues, Cortes-Vasquez advised, observing that her community is full of them. Nonprofits must build those relationships.

**The sector will be winnowed.** Of 900,000 U.S. nonprofits—"too many," according to Dr. Paul Light, professor of public service, NYU Wagner School—at least 100,000 will close. He foresees the sector losing "a big, brand-name nonprofit," and hiring and salary freezes becoming the norm.

Foundations are looking at the people with sensible and creative ideas that will have the greatest impact, said Phillip Henderson, president, Surdna Foundation. Urging foundation involvement in the conversation, he said, "We'll sustain nonprofits where we have relationships." He noted that the sector bounced back quickly from the 2002 downturn; "not this time," he predicted.

Palmer added that the situation should not be compounded by government passing along unfunded mandates to nonprofits.

**Nonprofits have a responsibility to coach each other**, said Cortes-Vasquez: Support and bolster ongoing initiatives of agencies and affinity groups who are examining the sector, she advised. These groups should share best practices and discuss how to consolidate, eliminating organizations that don't meet funders' expectations in service provision. **Collaboration can move the sector forward.** Cortes-Vasquez advised sharing systems like administration and health-care costs, bookkeepers and accountants, back offices and purchasing.

**Foundations are hoping to retain spending levels.** With endowments down, the community is distressed but energized by the Obama presidency and "thirsting" to fund "new ideas and big things," said Henderson. The needs, and the need for creativity, are tremendous. Foundations are granting what they can in light of perpetuity mandates.

**Let's find our voice.** Light challenged nonprofits to demand Congressional hearings on the state of the sector and commit \$25 million to a visibility campaign; foundations should liquidate assets for a "distressed nonprofit fund" and demand fundamental restructuring as a commitment to the sector's future. Americorps should expand to 1 million members, as a "jobs program" for the non-profit sector.

**Think outside the organization**, said Miller, about how technology can be deployed and the best, most efficient way to get services to the neediest; "it's not always through an organization." Light reported that Paul Schmitz, CEO, Public Allies, is advising the Obama transition team on creating an office of social entrepreneurship. "Do we need that, or should we support things that we already know work?" Light asked, suggesting that attendees forward their ideas to Schmidt.

**Focus on the organization's health and growth, not just the crisis**, advised Cavicchio; leadership and capacity building top donors' agendas. There's a pool of highly-skilled laid-off people with poor prospects, she added; reach out to them through HR departments and bring them in to build capacity. "Capacity building is a very good investment in bad times," said Light. "The gains from it, and productivity, are enormous."

Demonstrate – and communicate – impact across your programs, and donors will be more open to general operating grants, Cavicchio advised. Grant makers will give "flexible" support over time as an organization's

value becomes clear, Henderson added. Light suggested that donors should adopt a single outcomes management form.

**Integrate young people into nonprofits to build a new generation of leaders.** “They don’t see the sector as responsive,” said Cortes-Vasquez. The top 30 nonprofits have remained very stable over the years, said Henderson, and the sector needs new ideas. “Generation O doesn’t see vibrant careers in our organizations,” Light said, suggesting that incubators are needed for startups. Palmer underscored the importance of employees having cultural competence in communities they serve.

**Look to the future, and lead.** “Find ways to get on the same side of your issue with other nonprofits, donors and government,” Miller said. “Keep your eyes on the ecosystem of the whole community. We have the standing to lead.” Continue discussions such as today’s on critical issues, the results and the costs, Palmer urged; “A robust social service sector offers *choices* for poor children and families.”

“Collaboration is incredibly hard,” concluded Ronna Brown, NYRAG president. “Be willing to make uncomfortable changes. Without them, the sector will not succeed. We are all on same side, of doing better for our community, and we need to partner with each other to advocate for and move the sector forward.” The rebuilding efforts after the Katrina disaster have included “kernels of innovation and collaboration” previously unseen, she observed, urging participants to “hold on to your dreams.”